

United States Senate

WASHINGTON, DC 20510

May 6, 2004

Mark B. McClellan, M.D., Ph.D.
Administrator
Centers for Medicare and Medicaid Services
314G Hubert H. Humphrey Building
200 Independence Avenue S.W.
Washington, D.C. 20201

Dear Administrator McClellan:

As you know, the current Medicare Sustainable Growth Rate (SGR) formula for reimbursing physicians and other health care practitioners has generated negative updates every year since 2001. According to the Medicare Trustees, the formula will lead to cuts of five percent a year from 2006 through 2012. Actions by Congress have prevented reimbursement cuts in the years 2003 through 2005, but next year, Congress will once again confront the need to consider a more permanent "fix" in the formula.

We know you recognize the magnitude of this problem and are committed to working towards an appropriate solution. We would like to recommend policy adjustments the Administration could make that would lead to more accurate calculations of the targets used in physician reimbursement. While such fine-tuning will not eliminate all of the problems in the current SGR formula, it will help facilitate Congress' efforts to develop a more reliable reimbursement system.

The cost of physician-administered drugs continues to be included in the SGR, even though these drugs are not "physician services". Spending on physician-administered drugs is increasing far more rapidly than spending on physician and practitioner services, so having drug spending in the SGR continues to distort the calculation of actual spending. It makes sense to remove drug spending from the SGR formula, and we encourage you to do so.

Additionally, the Administration's current physician-reimbursement calculation does not adequately capture the full impact of changes in laws, regulations, new screening benefits as required by the Medicare law. In addition, the impact of a number of the Administration's actions, such as CMS coverage decisions, is excluded entirely from the physician-reimbursement calculation even though those decisions may have just as great an impact on patient demand for services as a statutory change. Such changes need to be fully accounted for in the SGR calculation.

The task confronting the Congress in rectifying the SGR formula is formidable. Any actions the Administration can take to more accurately account for the realities of spending on physician/practitioner services under the SGR formula, both as to actual spending and target spending, will facilitate Congress' efforts and enhance patient access to high quality care. Thank you for your efforts toward this end.

Sincerely,

Jon Kyl

Blanche L. Lincoln

Elizabeth Dole

Jack Reed

Jeff Blumenthal

Marianne Comstock

Allen Speer

Robert A. Neuharth

Debbie Stabenow

E. Benjamin Johnson

Ed Kennedy

Ron Wyden

Arnold W. Feingold

John McCain

Janice Kirstein

Herb Kohl

Frank R. Lautenberg

Tom Harkin

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George V. Kenovich

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Paul Sarbanes

Alvin Leger

Lamar Alexander

Chris Hatch

Wayne Allard

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Jim Jeffords

Richard Durbin

Mike Crapo

Joe Talbot

Erin Bayh

James M. Chafee

Chris Dodd

Patrick Leahy
